

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7095

BILL NUMBER: SB 387

DATE PREPARED: Jan 3, 2002

BILL AMENDED:

SUBJECT: Escrow Interest and Escrow Trust Fund.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: The bill requires lenders who issue or service mortgages to pay interest on escrow accounts. The bill provides that the interest earned on escrow accounts goes to the Escrow Trust Fund to provide: (1) financial assistance to lower income families for the purchase of affordable housing in the form of grants, loans, and loan guarantees; (2) loans or grants for the acquisition, construction, rehabilitation, development, operation, and insurance of public housing; (3) grants to emergency shelters for the homeless; and (4) grants to municipal corporations to reduce property taxes.

Effective Date: July 1, 2002.

Explanation of State Expenditures: *Escrow Trust Fund:* This bill establishes the Escrow Trust Fund, which is to be administered by the Indiana Housing Finance Authority. The cost for administering the Fund is to be paid from money in the Fund.

Explanation of State Revenues: *Escrow Trust Fund:* The bill provides that lenders who issue or service mortgages on residential real property in Indiana must create and maintain escrow accounts for taxes or insurance on the property. The interest earned on the escrow accounts must be paid to the Escrow Trust Fund, which is to provide:

- (1) financial assistance to lower income families for the purchase of affordable housing in the form of grants, loans, and loan guarantees;
- (2) loans or grants for the acquisition, construction, rehabilitation, development, operation, and insurance of public housing;
- (3) grants to emergency shelters for the homeless; and
- (4) grants to municipal corporations to reduce property taxes.

The fund is to consist of deposits from the escrow accounts, appropriations from the General Assembly, gifts and grants, and investment income earned on the Fund's assets. The Treasurer of the State would invest the

money in the fund, and any money left in the Fund at the end of the fiscal year would not revert back to the General Fund.

Tax Revenue: The lender must pay interest on the funds in escrow at a rate of 2% from the date of receipt of the funds until the funds are expended by the lender for insurance or taxes on the property. It is unclear how the rate of interest will be calculated. Earnings in a trust account may not be available to the lender. It is unknown what financial impact this will have on individual lenders, but if it results in a reduction of earnings, it could potentially reduce the amount of income tax revenue remitted to the state.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Housing Finance Authority; Treasurer of State.

Local Agencies Affected:

Information Sources: